DOCUMENT RESUME

ED 077 458 HE 004 291

AUTHOR	Leslie, Larry L.
TITLE	The Trend Toward Government Financing of Higher Education Through Students: Can The Market Model be Applied?
INSTITUTION	Pennsylvania State Univ., University Park. Center for the Study of Higher Education.
REPORT NO	PSU-19
PUB DATE	Jan 73
NOTE	24p.
AVAILABLE FROM	Center for the Study of Higher Education, 101 Rackley Building, The Pennsylvania State University, University Park, Pennsylvania 16802 (Free on a limited basis)
EDRS PRICE	MF-$0.65 HC-$3.29
DESCRIPTORS	*Educational Administration; *Educational Finance; Federal Aid; *Federal Government; *Higher Education; Management Systems; Marketing; *Money Management

ABSTRACT

In the past several years a trend toward government funding of higher education through students has been emerging. This trend, which proposes to apply the market model to higher education, is largely the work of well-meaning economists, persons possessing only the high motives of equalizing opportunity and improving efficiency in higher education. Their motives are so fine that less desirable, noneconomic outcomes have not received careful consideration. After careful study of the trend, it is felt that the market model probably cannot and should not be applied to higher education, the reasons for this being that higher education, as presently designed, does not sufficiently represent a marketplace. In additon, it is felt that such a system has limited goals, imposes federal restrictions that may not be overcome by many institutions, and creates a limited public service because of the restrictions. It is recommended that the priorities of higher education be reexamined to determine the logical order of the economic and social factors involved. (Author/HS)

FILMED FROM BEST AVAILABLE COPY

ED 077458

The Trend toward Government Financing of Higher Education through Students: Can the Market Model be Applied?

Larry L. Leslie

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
OFFICE OF EDUCATION
THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL OFFICE OF EDUCATION POSITION OR POLICY

Center for the Study of Higher Education The Pennsylvania State University

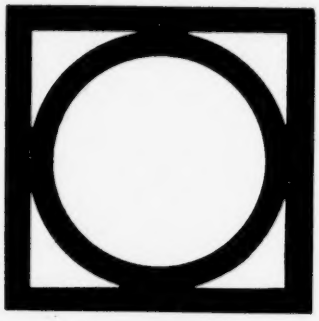
Report No. 19

HE 004 791

ED 077458

The Trend toward Government Financing of Higher Education through Students: Can the Market Model be Applied?

Larry L. Leslie



Center for the Study of Higher Education
Report No. 19

The Pennsylvania State University
University Park, Pennsylvania

January 1973

Table of Contents

The Trend

Introduction 1
Evidences of the Trend 1
Reasons for the Trend 4
Effects of the Trend 6

The Market Model

Description of the Model 6
Can Students Be Consumers? 7
Can Higher Education Be a Producer-Vendor? 10
Can Higher Education Operate as a Market System 11

Conclusions

Voucher System Has Limited Goals 15
Voucher System Imposes Federal Restrictions 16
Voucher System Creates a Limited Public Service 16

Introduction

This paper deals with a topic having serious, if not grave, implications for higher education. A trend toward government funding of higher education through students is emerging.[1] This trend, which proposes to apply the market model to higher education, is largely the work of well-meaning economists, persons possessing only the high motives of equalizing opportunity and improving efficiency in higher education. Their motives are so fine that less desirable, noneconomic outcomes have not received careful consideration.

No one appears to have asked whether the market model is compatible with the basic values of American higher education. I propose to do that in this paper. Since the question is directly one of values, the answers given here must also be value-laden to a greater degree than is normally the case in traditional scholarship.

Evidences of the Trend

First, what indications are there that a trend toward student vouchers exists? There appear to be four important indicators. Two of these are the reports of two of the more significant national higher education study groups: the Carnegie Commission and the HEW (Newman) Task Force. More than any other forces, the recommendations of these two groups have resulted in vastly increased state voucher programs and in the federal Higher Education Bill of 1972[2], which is essentially a national plan for a voucher system. These are the four major indicators: two are committee reports and two are specific, concrete actions. All four are closely related; indeed, the concrete actions may be direct results of the committee reports.[3]

The Carnegie Commission on Higher Education probably has done more to set higher education policy than any group in the last thirty or forty years. Most observers would agree that the soundness of the Commission's reports, coupled with the prestige of

---

[1] The term "student voucher" will be used instead of the more cumbersome phrase "funding higher education through students." Although some would maintain that "student voucher" is a term that unnecessarily raises emotional reactions, it seems accurate and proper here. Awarding grants to students who are allowed to select their college fulfills the normal definition of the voucher. It matters little whether the award is made by the institution or some external agency such as the federal government if, as is often the case, the student knows the award can be taken to any institution he or she may choose.

I am excluding traditional forms of student scholarships. This paper speaks strictly to the present trend toward governmental provision of funds to students *solely on the basis of need*. These funds are commonly called need-based grants or equal opportunity grants, which students can take with them to almost any post-secondary institution they might choose.

[2] The Education Amendments of 1972.

[3] Perhaps the importance of these study groups is overstated. I do not believe this to be the case. If I am wrong, the similarity of the Education Amendments to the Carnegie recommendations is a truly remarkable coincidence.

its members, has led to ready adoption of Commission recommendations by federal and many state governments. Thus, when in *Quality and Equality: Revised Recommendations, New Levels of Federal Responsibility*, the Commission listed as its overriding priority the achievement of equality of educational opportunity, the basic direction of Commission and ultimately of governmental policy was set. That this priority might be realized, the Commission made the following major recommendations to serve as guidelines for all future policy statements: "The three interacting elements of the proposed federal aid program to remove financial barriers are all of great importance: financial aid to students, with a substantial component of grants for low-income students and a moderately expanded loan program primarily for middle-income students; cost-of-education supplements to institutions; and creation of new places to accommodate all qualified students."[4] More specifically, the Commission recommended for undergraduates a $1,000 per year opportunity grant to be based solely on need. But the Commission did not stop with a policy for determining the nature of federal student grants. It went on to attempt to set the nature of state support: "To encourage commitment of more funds from nonfederal sources. . .the Commission recommends that an undergraduate student holding an educational opportunity grant and receiving added grants from nonfederal sources be given a supplementary federal grant in an amount matching the nonfederal grant."[5] Thus, state governments were "encouraged" to follow the voucher mode.

Federal grants to institutions were likewise to be tied to student grants. The Commission began: "To encourage colleges to participate more fully in the move toward equality of educational opportunity. . .the Commission recommends that the federal government grant cost-of-education supplements to colleges and universities based on the number and levels of students holding federal grants enrolled in the institutions."[6]

The only other federal funds to be awarded institutions would be construction grants and special purpose grants, such as aid for developing institutions, for libraries, and for international studies and research. Without question, the Carnegie Commission called for drastic revisions in the method of financing higher education.

The Newman Report, issued in March 1971, made the following parallel statement: "We also recommend that both the state and federal governments provide funds to institutions (both public and private) in the form of grants that accompany certain categories of students. . . . Providing funding through grants accompanying students (portable grants) has the advantage of encouraging a sense of competition and willingness to change as society changes."[7] It is important for future reference to note that the Task Force went on to comment: "There is little chance that such grants would encourage colleges to excessive catering to the whims of students. *There will continue to be more students than*

---

[4] Carnegie Commission on Higher Education, *Quality and Equality: Revised Recommendations, New Levels of Federal Responsibility for Higher Education* (New York: McGraw-Hill Book Company, 1970), p. 2.

[5] Ibid., p. 6.

[6] Ibid., p. 21.

[7] U. S. Department of Health, Education and Welfare, *Report on Higher Education* (Washington: U. S. Government Printing Office, 1971), p. 74.

places, so that most colleges will continue in a seller's market."[8] This, plus a recommendation for some categorical grants for innovative programs, is the essence of the Newman Task Force funding recommendations.

It is clear from the nature of and even the specific wording of the Higher Education Bill of 1972 that the Carnegie Commission, and to a lesser extent the Newman Task Force, provided the bases for the present federal legislation. Although the enabling legislation is at the time of this writing without appropriations, plans for federal funding of higher education will take the following form: for direct grants to students, there will be an extension of the present supplemental educational opportunity grant program for four more years with the maximum amount per year raised from $1,000 to $1,500. In addition, there will be basic educational opportunity grants in the amount of $1,400 minus family contributions.[9]

Direct grants to institutions will take the following form: 45 percent of such grants will be awarded on the basis of dollars received by the institution for Educational Opportunity Grants (EOG), work-study grants, and National Defense Student Loans; 45 percent on the basis of the number of entitlement awards at the institution; and 10 percent on the basis of the number of graduate students enrolled. Thus, 90 percent of the allocation would be tied strictly to student vouchers, whether loans or grants.

The only direct institutional support not tied to student grants will be $200 for each FTE (full-time equivalent) post-baccalaureate student. Forty million dollars will also be available over a two-year period for emergency support of institutions on the verge of bankruptcy. There will be funds for the development of community colleges.

But of special interest and importance--and we shall return to this later--is a regulation which would cause federal matching of state funds in order to increase state appropriations for student scholarships based on need. The implications of this are worth considering. Traditionally, the bulk of state appropriations have been unstipulated block grants to institutions. Regulations had to be followed, of course, but the institution had wide flexibility in the internal allocation of resources. Under this bill, states would be enticed to diminish general institutional support in favor of student vouchers. This carrot before the legislative mule could cause states to reduce unstipulated funding. Although the initial appropriation for this program is only $50 million per year, "such sums as may be necessary" are authorized for continuation grants. This influence on state funding is especially interesting in light of the advertised advantage of student vouchers: that the federal government would cause less interference in state funding patterns.[10]

---

[8] Ibid., italics mine.

[9] Public Law 92-318, The Education Amendments of 1972. *Note*: In all these programs, there are varying funding thresholds so that the amount available to any given program depends in some way upon the amount available for other programs. See the specific wording for elaboration.

[10] There is serious disagreement among the "experts" on this point of institutional autonomy. Proponents of the voucher insist that more, not less, autonomy would result because institutions would be freed of many governmental regulations. Students, not

It is certainly true that the magnitude of federal support for higher education is small in comparison to the size of state support. Nevertheless, it is quite clear that under these amendments the federal government will play a large part in determining the nature of state government funding. Further, its influence comes at a moment when the portion of state monies already being channeled through student vouchers is quite sizable and is increasing sharply. In 1967-68, six states had state scholarship or grant programs; in 1971-72, the number was twenty-two. Since 1969, the average percentage increase in state funds for these programs has been up 18 percent each year. Although the average award rose only gradually during the past three years, the number of separate awards increased greatly, being up 14 percent in 1970-71 and 19 percent in 1971-72.[11] By snythesizing and extrapolating from scattered data, it is estimated that approximately $300 million are now spent on student scholarships and grants by states. In 1970, the federal government added another $930 million; private sources contributed $50 million; and colleges and universities from their own varied sources added $700 million.[12]

Clearly, a trend toward government financing of higher education through students exists. The trend appears to be a major one only now in its beginning phases.

Reasons for the Trend

Why has the trend occurred? What do the causes of the trend tell us about its likely effects?

Although there are a host of listed purposes to be served by student vouchers, all may be subsumed under two general headings. The first is the purpose of equalizing educational opportunity, and the second is the perceived need to respond to the current financial crisis in higher education. Actually, the two are closely related. Those who argue for equality of educational opportunity realize they do so in a period of financial retrenchment. Thus, they believe it to be good politics (non-pejoratively speaking) to point out the efficiencies possible through invoking market conditions upon higher education via student vouchers. Concomitantly, those largely concerned about the financial crisis point out not only the possible economies to be gained by invoking market conditions through vouchers, but only the equality of educational opportunity that may result.

It is not necessary to detail either the existence of a financial crisis or the present inequality of higher educational opportunity. The Carnegie Commission, the Association of American Colleges, and the National Association of State Universities and Land-Grant

---

governments, would be providing the funds and making the demands. As is discussed later, there is also much to be said in rebuttal of this position because a market system is essentially a stimulus-response system in which producers respond to consumers in a very closely related fashion.

[11] In five states, awards are not based solely on need, but are generally competitive. Further, in only nine of the remaining seventeen states were all or virtually all awards purely need based. These data are taken from *"Inventory of Student Financial Aid Programs, Phase I Report,"* ED058039 (Washington: ERIC, 1971), and 1971-72, pp. 6-16; and Joseph Boyd, *"Comprehensive State Scholarship Grant Programs--Third Annual Survey,"* (Deerfield, Illinois: Illinois State Scholarship Commission, 1971).

[12] Ibid.

Colleges have conducted studies demonstrating that such a crisis exists.[13] It should be likewise unnecessary to list the overwhelming evidence in support of the second assumption. The reader need only be reminded that at all ability levels, the percentage of individuals attending college from higher socioeconomic backgrounds is two or three times greater than the percentage of those from lower socioeconomic backgrounds.[14]

All of this seems simple and straightforward enough unless one asks the question: Why can equality of educational opportunity only be realized through the student voucher? The presumed advantages of student vouchers, efficiency-wise, seem clear enough upon noting that such advantages all follow from the notion of a competitive marketplace. However, one might well ask why low-cost or zero tuition, coupled perhaps with cost of living grants to low-income youth, would not result in comparable equality. The answer is that such a plan probably would have comparable effects, but there is another consideration which is tacitly understood but seldom discussed among parties to the debate. This consideration is simply that the total resource pool of funds available to higher education is not expected to expand significantly in the near future. Therefore, funds expended to meet one priority will be spent at the cost of another, although, of course, priorities may overlap. The majority of public subsidies in the form of low tuitions spread among all students are funds denied the needy, for only the needy may receive funds under the competing voucher system. This is why, under the constraints of the amount of funds presently available, high- or full-cost tuition is always either a visible or a hidden attribute of voucher plans: there simply are not enough resources to afford low tuition plus large amounts for grants to needy students. Furthermore, as those opposed to vouchers recognize, vouchers are at a cost to general purpose grants to institutions.[15] If this were not so, there would be little conflict about the voucher plan since both sides agree that equalization of opportunity is the major priority. But the opponents of the voucher approach insist that equality is only one priority for higher education, albeit probably the most important one.

Complicating these circumstances is the particularly desperate condition of the private colleges, a condition which it is assumed the voucher would alleviate through the introduction of meaningful public-private competition. Without question, a redressing of the current competitive imbalance between private and public institutions demands immediate attention: the financial condition of private colleges is such that unless this imbalance is corrected, many will not survive. With full-cost tuition applied to the public institutions, the competitive position of the private schools would appear to be improved enormously, although the impact upon those who pay tuition at public institutions would also be substantial.

---

[13] Earl F. Cheit, *The New Depression in Higher Education* (New York: McGraw-Hill, 1971); William W. Jellema, "The Red and the Black," and "Redder and Much Redder" (Washington: The Association of American Colleges, 1971); Garvin Hudgins and Ione Phillips, *Public Colleges in Trouble; A Financial Profile of the Nation's State Universities and Land Grant College* (Washington: NASULGC, 1971).

[14] Carnegie Commission on Higher Education, *New Students and New Places* (New York: McGraw-Hill Book Co., 1971), pp. 26-29. Project Talent is another, more complete source.

[15] Perhaps they also question the fairness of requiring middle- and even high-income individuals to support, through their taxes, the *free* college education of students from low-income homes while they must bear the full cost of educating their own children.

In sum, the student voucher mode was created in response to the need for the extension of educational opportunity and the perceived need to gain efficiency in higher education through application of market conditions. As an outgrowth of the attempt to satisfy market conditions and from the need to reallocate limited resources in response to this and the opportunity priorities, it is generally recognized that tuitions must approach full cost.

Effects of the Trend

This brings us to the third and perhaps decisive portion of this statement. What will be the effects on higher education of the trend toward financing higher education through student vouchers? The amount of speculation on this question is extraordinary.

The assumptions that the voucher will extend opportunity and especially that it will improve efficiency are such speculations.[16] On the first point, there appears to be little disagreement; however, on the second, there is vigorous debate and therein lies the crux of this paper. Can we assume the voucher will improve efficiency? Voucher proponents assume that the voucher will invoke a market model and that certain specific outcomes related to efficiency will result. Clearly, this is what the student voucher advocates imply when they speak of "gaining efficiency through competition among institutions" and "causing higher education to be more responsive to students and to the taxpayers." Before proceeding, it is important to note that arguments for voucher plans do not necessarily rely upon meeting market conditions. Equality of opportunity, for example, can most surely be promoted via vouchers without any reference to the marketplace. But this paper does not confront such a narrow, though vital, question. This paper seeks to examine, from theory, what the total effects of a voucher plan might be. The applicable theory is that of the free market, or the market model.

The point raised in question is whether higher education can be a marketplace, i.e., whether students can fulfill the role of consumers, and institutions the role of producers and vendors of goods or services.

Description of the Model

For the answers to these questions, let us examine the model. The market model, when reduced to its simplest elements, consists of consumers and producers who are brought together in a general market system. There may be many middlemen, but at its simplest level there are only consumers and producers and the general market system. For efficient market operation, each of these elements must consist of the following.

Consumers must be characterized by: (1) the ability to make prudent choices; (2) the knowledge necessary to make these choices; and (3) the means to exercise these choices.

---

[16] There is little hard evidence that higher education is really inefficient. The financial crisis appears to have promoted that assumption. It is true that one can spot areas of mismanagement in higher education as in any institution. It is also true that there have been practically no productivity gains in higher education in several decades. Part of the explanation, however, is that, like any service "industry," higher education is labor-intensive, and productivity gains are very difficult to achieve.

Producers of goods or services--or rather their organizations--must be characterized by: (1) a single decision maker; (2) a profit motive; (3) a technology by which a particular output is produced using land, labor, and capital outputs; (4) the freedom to sell outputs in order to earn revenues; and (5) the freedom to use revenues to buy productive factors.[17]

The general market system must be characterized by perfect competition, increasing costs in all industries, an exclusion property, the absence of public goods (benefits), complete knowledge, and complete mobility.[18]

Before turning to the analysis, a qualifying statement is in order. First, the market model as defined here is an abstract ideal that does not exist in reality. There are no perfect marketplaces. Second, there is clearly room for improved efficiency in higher education and certain market conditions applied in selected settings would no doubt be a good thing. Within subunits of colleges and universities, such as purchasing offices or academic departments, the introduction of certain market conditions might very well result in efficiency gains. However, whether higher education as a total institution can or should be treated like a business organization is another question.

Can Students Be Consumers?

Do students, then, fit the role of marketplace consumer? The simple answer would appear to be a rather clear "no." Notwithstanding such efforts as those by Henry Levin to compare higher education consumers to the discriminating parents of San Francisco Bay Area pre-school children and by Robert Hartman to show that within an institution students make rational choices in selecting program majors, the evidence is quite strong that in the selection of colleges and universities students do not generally make rational, informed decisions.[19]

Direct evidence concerning the college student in the role of consumer is provided in a vast literature on this topic. The first conclusion from this literature is that geography continues to be the primary predictor of whether a student will go to college and specifically which college he will attend.[20] The principal reasons for this are probably emotional and financial, with the desire to live at home being perhaps the major underlying factor. In any case, if students act as wise consumers, they do so largely within the limits of geography.

---

[17]Robert Henry Haveman, *The Economics of the Public Sector* (New York: John Wiley & Sons, Inc., 1970), p. 20.

[18]Ibid., pp. 23-27.

[19]From unpublished papers presented to the Task Force on Funding Higher Education, the Committee for Economic Development, New York City, 1972.

[20]There seems to be no exception to this conclusion in the literature. See, for example, Elizabeth Douvan and Carol Kaye, "Motivational Factors in College Entrance," in Nevitt Sanford, (ed.) *The American College* (New York: John Wiley & Sons, Inc., 1962), pp. 193-223; and the citation of the works of Holland on National Merit Scholars, Ibid., p. 219.

The second set of conclusions, concerning the perceived needs of students and the extent to which institutional milieus complement those needs, comes from the works of George Stern and Robert Pace and to a lesser extent from Alexander Astin and Burton Clark. Utilizing such instruments as the College and University Environment Scales, the Activities Index, and the College Characteristics Index to examine needs and presses, these researchers have reached conclusions about "student needs" and "institutional presses."

According to George Stern, "The relationship of student needs to the institutional press (environment) for the same students (data are from a variety of institutions) is not much stronger among institutions than within." In other words, student needs correlate about as well with the environmental press of other institutions as with their own institutions.[21] Stern also concludes: "There is no relationship between student characterizations of their needs and their characterizations of the institutional press."[22] This general pattern in Stern's findings is modified in one other writing where Stern indicates that students select colleges at least somewhat congruent with their personality needs.[23]

The other principal researcher in this area, Robert Pace, seems to have obtained more consistent results. From data obtained using his College and University Environment Scales, Pace shows that although students often intend to match their needs with their college choice, due to misinformation and misinterpretation, they seldom do. Pace notes that student expectations and idealizations of their institutions are nearly identical, but "neither were very similar to the actual profiles of the colleges which the students hoped to enter." Pace concludes that colleges select students a good deal more carefully than students select institutions, perhaps raising an interesting question as to just who is acting as consumer.[24]

On the other hand, Alexander Astin's comparable work is considerably more optimistic. Says Astin, "The characteristics of the entering student bodies are highly related to certain characteristics of colleges." Astin, however, suggests that the apparent inconsistency with Pace and Stein's findings may be simply explained. Astin's favored hypothesis is that over time colleges have simply adapted their curricula to fit the characteristics "of those students who mysteriously turn up."[25] In other words, students do not really make informed choices at all.

---

[21]George G. Stern, "Environments for Learning," *The American College,* pp. 713-14.

[22]George G. Stern, "Congruence and Dissonance in the Ecology of College Students," *Student Medicine,* 8 (April 1960), pp. 304-39.

[23]George G. Stern, "The Intellectual Climate in College Environments," Kaoru Yamamoto (ed.), *The College Student and His Culture: An Analysis* (Boston: Houghton Mifflin Company, 1968), p. 207.

[24]C. Robert Pace, "Diversity of College Environments," *National Association of Women Deans and Counselors Journal,* 25 (October 1961): 21-26; idem., "When Students Judge Their College," *College Board Review,* 58 (Winter 1965-66).

[25]Alexander W. Astin, "Who Goes Where to College?," Kaoru Yamamoto, ed., *The College Student and His Culture: An Analysis* (Boston: Houghton Mifflin Company, 1968), pp. 146-147; 158.

Other apparently conflicting findings emerge from the works of Burton Clark, who studied "distinctive" colleges. At first appearing to contradict himself, Clark states: "The influence of a college, broadly speaking, includes the attracting of a particular student body out of a large pool of students. Students make themselves available to a college according to their impressions of it." He goes on to say, "Many students go to a college or university with hardly any image of it at all." The explanation is that the first statement is based largely upon research done on distinctive institutions such as Antioch, Reed, San Francisco State, and Swarthmore, whereas the second quote is a more generic statement.[26] Clearly, schools like Reed and Antioch are distinctive institutions having a unique environment; their unusual environments are generally well known, especially among the kinds of students they attract. Thus, the institutional choice of these students represents deviation from the normal pattern formed by their less informed cohorts.

This conclusion is confirmed by the works of Douvan and Kaye, who state that "Students who are unconcerned about the geographic location of the school they chose, are undoubtedly from more sophisticated, cosmopolitan families."[27]

Very briefly, and in sum, the conclusions seem clear. First, geography is the major predictor of whether a student will go to college and which institution he will select. In fact, even religious preferences and parental alumni affiliations are better indicators than the sagacity of student choices.[28] Second, either because of a lack of information or perhaps because of misinterpretation, the vast majority of students are not able to match their needs with the environment of an institution, although there are exceptions, especially in the case of the sophisticated and those seeking distinctive institutions. However, the kinds of students who would be receiving student vouchers would be the least likely to fill the roles of informed consumers. Voucher students are not likely to be sophisticated, cosmopolitan, or urbane.

Thus, students appear to be severely limited as consumers, even considering liberal criteria. But under the market model, the criterion is a good deal more limited. The explicit question is whether students can judge which institutions will yield the highest economic return. It is not as simple as selecting a college with high prestige or one which has a compatible environment; it is selecting for purposes of optimizing an educational investment. One might wonder if even the sophisticated and cosmopolitan are capable of this. One hundred miles beyond the Ivy League domain, such sophistication is seldom found.

Perhaps it could be argued that students come as close to filling the market role as do consumers in making their daily purchases.[29] If this is so, the validity of the market model as a concept must be called into question.

---

[26]Burton R. Clark, "College Image and Student Selection," Ibid., pp. 179; 188.

[27]Douvan and Kaye, "Motivational Factors," p. 220.

[28]Ibid., p. 221.

[29]This is an appropriate juncture to reiterate that the market model is no more than an unattainable theoretical concept. The question here, however, is the *degree* of applicability of the model to higher education.

Can Higher Education Be a Producer–Vendor?

The second major element of the model is the organization of the producer-vendor. There are several specific required characteristics of this organization, only some of which will be discussed here.

The first is the requisite for a single decision maker--a condition not well met in institutions of higher education. Presumably, the requirement is only for a final decision-making authority; but, even in this, final decision making in higher education operates under the principle of shared authority. The president or the board have final functional authority in some matters, the faculty in others, and the students yet in others; but, in almost all cases, functional authority is shared by all or several of the parties.

Second is the profit motive. With the exception of proprietary schools, there is no such motive in higher education. Indeed, higher education has sometimes been characterized as most closely fitting the model of the nonprofit organization. In fact, until a recent court case called the policy into question, all of the regional accrediting associations demanded the absence of a profit motive as a prerequisite consideration for accreditation. Incidentally, another essential ingredient of a market system--competition--is said to exist only because of the profit motive.[30] Markets can exist without the presence of a profit motive, but efficiency is best served under a profit system. As an illustration, profit is the motive for risking the development of a new product. Thus, how can we expect strong leadership for new and innovative programs in the absence of profit? To be sure, we can provide incentives in the form of promotions and higher salaries, although this possibility diminishes as the day of the union approaches. Would the union allow professors to be paid bonuses on some production basis such as the number of students they recruit for their classes?

The kind of competition that exists in higher education is not the traditional variety. Institutions compete for legislative favor, seeking to gain resources for the achievement of institutional goals. They compete for prestigious faculty and for students. Viewed in this light, it is perhaps correct to conclude that there is a kind of higher education profit. If so, that profit must be largely a form of psychic profit enjoyed by administrators who gain power through larger enrollments and budgets and by faculty members who enjoy the added prestige related to large size and the institutional quality afforded by extra resources.

The third essential characteristic of the seller's organization is a technology by which a particular output is produced from certain inputs. But what is the output of higher education, particularly of the university? Without identifying an output, the economic model cannot be applied and an analysis made. Economists have specified a variety of instructional units, such as the number of degrees granted, the number of full-time equivalent students enrolled, or the number of student credit hours generated, as the output of higher education. Yet, volumes have been written in testimony to the shortcomings of these measures, the greatest flaw being that they do not consider quality. Further, instruction is only one of the three purposes of higher education: instruction, research, and service; therefore, an economic analysis based only upon instruction would be spurious especially be-

---

[30]Rudolph W. Trenton, *Basic Economics* (New York: Meredith Publishing Company, 1964), p. 23.

cause it is extraordinarily difficult to separate instruction and research for purposes of analysis. Indeed, this is why college budgets use the combined category of "Instruction and Departmental Research."

As to the fourth and fifth essential characteristics--the freedom to sell outputs and the freedom to use earned revenues--these could be afforded only under a proprietary system for only this system resembles a true marketplace. Governmental intervention necessarily accompanies public subsidies and all institutions that enroll voucher recipients must come under significant governmental regulations. Doubtless, even the advocates of the student voucher would argue for a proprietary system and few would deny the need for governmental regulation.

Can Higher Education Operate as a Market System?

The third general element in our analysis is the market system itself. The marketplace must be characterized by competition. But, as shown above, competition can only exist with a profit motive. Higher education is not characterized by a traditional kind of profit motive. Further, competition assumes reasonable consumer knowledge about products. As has been shown, student-consumers, for the most part, do not make rational choices (in the psychological or economic sense). Part of the problem is the lack of knowledge about institutions, although an efficient dissemination system in the form of accessible audio and visual recordings has been in existence for at least ten years without noticeable effects upon student choices.

The second necessary condition for an effective market system, and the final one discussed here, is the exclusion property, which requires that all benefits from the purchased commodity be captured by the consumer. Higher education, however, has large spillover effects with society benefiting greatly in literally hundreds of ways from the higher education of individual citizens. These external benefits of higher education may be so large as to rival in size the returns to the individual.[31] Even Milton Friedman, one of the leading exponents of a free market system for higher education, acknowledges the substantial spillover effects.[32] Of course, many products or services have spillover effects; but few products, if any, have spillover rivaling that of higher education.

Will the Model Help Private Institutions?

Private institutions often enter into the discussion at this point for two reasons: first, free market spokesmen presume certain efficiencies of the private sector over the public. Second, the desperate financial condition of many private colleges demand relief, and vouchers are presumed to offer that relief.

The Carnegie Commission's recent reports, *More Effective Use of Resources and Institutional Aid,* seem to argue the case, however unintentionally, for the superior efficiency of public higher education, thus bringing into question the presumption that private enterprise will be more efficient. The Commission notes that in almost any di-

---

[31]Larry L. Leslie, "Funding Higher Education: An Examination of Strategies," Unpublished paper for the Committee for Economic Development, July 1972.

[32]Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), p. 88.

mension, private higher education is more costly than public higher education. In 1967-68, private colleges enrolled only 30 percent of all students, but received almost 40 percent of current fund income.[33] Private school costs are also higher and these higher costs cannot be explained by examining basic differences between the two sectors, such as more graduate and fewer lower division students in the private sectors: costs per FTE tend to be higher even when educational level is controlled;[34] lower faculty-student ratios are part of the explanation.[35] Further, private school administrative costs are far higher even when we control for size.[36]

In addition, costs are continuing to rise more sharply in the private institutions than in the public. From 1953-54 to 1966-67, private school costs rose 5.2 percent faster than the Consumer Price Index, while those in the public sector rose 2.5 percent. Part of the explanation was a more rapid rise in private school graduate enrollments and public sector community college enrollments.[37] Private institution income per student also rose more rapidly than public school income, causing the Carnegie Commission to comment that the private sector's competitive position, while superior ten years ago, had improved even more over the past decade and, thus, "Formulas which differentially favor private institutions require special justification in light of these facts."[38]

The federal voucher plan favors private institutions because small institutions, which are mostly private, receive more money per student; and students who select private colleges would tend to receive larger grants than would those selecting public colleges. Yet, not only are private schools, in general, less efficient, but small institutions, which are mostly private, are less efficient than somewhat larger ones.[39] These conclusions challenge the credibility of present voucher plans as models of efficiency. Further, the present federal voucher plan would encourage the less efficient smaller institution to remain small, because per student aid would be reduced with growth. Small colleges, given a choice between admitting a few voucher recipients at a higher income rate and admitting significant numbers at a reduced income rate, might well choose the former, especially if small institutional sizes were valued highly.

---

[33]The Carnegie Commission on Higher Education, *Institutional Aid: Federal Support to Colleges and Universities* (New York: McGraw-Hill Book Company, 1972), p. 73.

[34]Costs here are defined as educational and general expenses, less organized research costs. See, *The More Effective Use of Resources,* p. 37.

[35]Ibid., p. 69.

[36]Ibid., p. 133.

[37]Ibid., p. 36.

[38]*Institutional Aid,* pp. 73-74.

[39]Larry L. Leslie, "The Issue of Institutional Size: A Case of Conflicting Views," Unpublished paper prepared for the Committee for Economic Development, February 1972.

On the credit side, vouchers would appear to be less prone than institutional grants to constitutional challenges to governmental support of private schools. Second, since general institutional support has previously gone only to public institutions, simple logic would suggest that if under the voucher plan students could for the first time select either public or private schools, some net flow of funds to the private sector would result.

But which private institutions and to what extent they would benefit are perhaps the real issues. It is, of course, not for the most part, the elite private institutions that are experiencing financial difficulty; most have plenty of students who pay rather high tuitions. The small, rural, single sex, denominational institution is the one in dire economic straits. Yet, if we assume for the moment that the market-voucher advocates were right after all, it is possible to predict that, given a voucher, students would select the elite institutions. Such selection would probably be consistent with the market model assumption that consumers (students) would choose institutions yielding the highest economic return. On the other hand, if as forecast here, students would not act as marketplace consumers, we must rely for predictive purposes upon past and present trends. These trends predict no significant flow of students into the "non-elite" colleges.

The second issue concerns the amount of new funds obtained. The question is: Given a voucher, how many students who would otherwise have gone to public institutions would select the private institutions? Presently, there are no complete answers to these questions. However, preliminary investigations at the Center for the Study of Higher Education at The Pennsylvania State University reveal that these numbers may be quite small.[40]

There is yet another potential problem for private (as well as public) institutions anticipating fiscal salvation via vouchers. The federal Higher Education Act of 1972 stipulates that federal funds must be used solely "to defray instructional expenses in academically related programs," and that the institution "will expend during the academic year for such related programs, an amount equal to at least the average amount spent during the past three years." The interpretation of these regulations is that these additional monies will not be available to correct deficits but will be expended primarily, if not exclusively, for the needy students recruited. The admission of such students might very well exacerbate rather than alleviate the financial problems of small private institutions because of the greatly increased student services and expanded curricula demanded by low income groups, particularly those of minority races.[41] Remedial courses, ethnic studies programs, additional counseling, and perhaps lower student-faculty ratios are some of the required costly procedures. The logic of seeking efficiency and at the same time requiring hundreds of additional colleges to establish such costly programs is an elusive concept.

Another edge of this already two-edged sword is the matter of institutional autonomy. Perhaps, to the institution on the brink of financial disaster, caveats about the risks to autonomy are not terribly germane. Nevertheless, many private institutions are not on the verge of bankruptcy, and these institutions should be aware of all the dangers of receiving public funds.

---

[40] Study of voucher recipients in five states to be completed late in 1973.

[41] Fr. Paul Reinert, President of St. Louis University, first made this observation.

Although the student voucher advocates claim their plan would preserve institutional autonomies, evidence such as the following regulation from the Federal Act of 1972 calls this into question. To be eligible for aid based on graduate enrollments, an institution must "describe (its) general educational goals and specific objectives." This section of the bill clearly implies that the federal government will oversee institutional goals. But what is more basic to an institution's autonomy than its goals? Since passage of the Henderson Law, private institutions in New York State have already been ruled to be legally public institutions for certain purposes and, thus, subject to regulation because they receive funds based upon the number of degrees awarded.[42]

The wording of Russell Thackeray, Executive Director Emeritus of the National Association of Land-Grant Colleges and Universities, is most lucid on this question of private school autonomy. Says Thackeray, "The requirements of the federal constitution and laws, including the definition and title of the Civil Rights Act, and the responsibility of the state for accountability in the use of its funds, will sooner or later place all similarly financed institutions on the same basis of regulation, supervision, and accountability. The idea that institutions can 'have it both ways' by channeling funds through the student rather than directly to the institution is, I believe, an illusion."[43]

There is yet a more straightforward way in which the student voucher will affect institutional autonomy, both in public and private institutions. The first thing learned by any graduate student in college and university administration is that he who controls the budget sets the goals. To this extent, the market model cannot be faulted. Students could have the power of consumers, no matter how wise their decisions. With vouchers in their hands, it is students who are going to pay the piper and it is they who will call the tune. Now, on the other hand, if this contention is in error (e.g., it has been argued that the G.I. "vouchers" of post World War II did not cause institutions to change their programs in meaningful ways), then the entire argument that institutions will respond as producers and dispensers of goods and services has no merit whatsoever. With this go many of the hoped-for effects of the market model.

The power of the budget is clearly shown in our institutions. How does college leadership reorder institutional priorities? Is it not very largely through the redistribution of resources? This is perhaps the major principle of long- and short-range institutional planning. Goal targeting through shifting of resources is the planner's major instrument of change.

Conclusions

Can the market model apply? For the most part, it probably cannot. Higher education, at least as presently designed, does not sufficiently represent a marketplace. Should

---

[42]Robert M. O'Neill, "Law and Higher Education—In Imperfect Harmony," Unpublished paper prepared for the Committee for Economic Development, pp. 37-39.

[43]Russell I. Thackeray, "Financing Higher Education Through a Voucher System: Recommendations of the Governor's Commission on Education in Wisconsin," Paper presented to the American Association for Higher Education, March 1971, p. 7.

it apply? Again, it probably should not, although some of the theoretical outcomes of the market model would no doubt be desirable for higher education. It seems that institutions ought to be more responsive to society than they are, but only moderately so.

Limited Goals of Voucher System

There are good reasons for this limited endorsement of the voucher system. The goals basic to student vouchers and the market model are worthy goals to be sure; but primarily they are only one kind of goal--economic. They seek to improve efficiency in higher education and to redistribute income through equalizing educational opportunity, both of which are economic goals at least in part. The former is targeted toward financial savings in higher education, and the latter is targeted toward the redistribution of personal income through equal opportunity (which is obviously a social as well as an economic goal). One cannot seriously disagree with these goals, nor perhaps even with their priority. But those who understand the full purposes of higher education in American society must emphatically insist that there are purposes apparently unknown to some economists, many of whom seem unaware of the nature of the university as an educational entity and of colleges and universities as social institutions. This narrow view is perhaps nowhere more clearly expressed than in Buchanan and Devletoglou's critical economic analysis of higher education, *Academia in Anarchy*. These economists refuse to recognize the need for considering the complex interactions of economic and social factors in higher education. They state: " 'Academic Freedom' has genuine economic content, and the intense faculty defense of this freedom is predictable on grounds of very elementary economics. Whether or not this freedom is socially justifiable is another question, and one that we have no need to discuss in this book."[44] Such narrow viewpoints are perhaps to be expected from any group of social scientists who possess only the framework of their own disciplines for examination of social phenomena. The economists, perhaps more than any other group, force the institution undergoing analysis to adapt to the economic model, rather than adapting the analysis to the existing conditions of the institution. But all disciplines insist that theirs is the "proper" basis for analyzing higher education; none seem to realize that each discipline provides a valid, and often conflicting, model. Perhaps only the academic dilettante or the student of higher education per se can broadly understand the university. Total or near total funding of higher education through student vouchers may represent good economics but it represents poor "higher education." Those who truly understand higher education are aware that concepts such as academic freedom, diversity among institutions, and institutional autonomy go far beyond serving the self-interests of a few insolent, egocentric faculty and administrators. Nevertheless, those who do possess such insights would probably agree that more institutional accountability is a good thing.[45] They would simply hasten to warn that higher education has a terribly important function as social critic, a responsibility which can only be insured if institutions and faculty members are somewhat buffered from pressures for immediate response to every public pressure. A market system as the guiding framework for higher education would tend to

---

[44]James M. Buchanan and Nicos E. Devletoglou, *Academia in Anarchy* (New York: Basic Books, 1970), p. 60.

[45]The Carnegie Commission, for example, points out how college budgetary procedures tend to discourage innovation. See, The Carnegie Commission on Higher Education, *The More Effective Use of Resources: An Imperative for Higher Education* (New York: McGraw-Hill Book Company, 1962), pp. 107-108.

exclude any activity not related to producing the goods or services being purchased. Evidence of this can be easily noted by reflecting on the nature of proprietary schools, which are the best existing examples of a market system in higher education. These schools appear to give no attention to matters lacking a direct, practical application. They have little place for esthetics and the fine arts for their own sake, for other elements of a liberal education, or for pure research. Nothing could be more anathematical to the idea of the university than the proprietary school.

Voucher System Imposes Federal Restrictions

The Carnegie Commission's volume entitled *Institutional Aid* says: "Institutions in turn should be free to chose their students, without discrimination on grounds of race."[46] They go on to say that the autonomy of the institutions should be preserved. But is this really possible when a desperate institution can only find salvation through admitting students presented to them by federal or state governments?

The Commission also speaks out against "the development of a single national system of higher education."[47] Yet they favor federal pressures upon states to follow the federal funding pattern——student vouchers. The federal government, in the form of the Higher Education Act of 1972, has furthered this interference in state higher education affairs by demanding statewide planning and a State Higher Education Commission (even the composition of the commission is prescribed) before certain funds can be received.[48] The wisdom of these statewide activities is not debated, but the federal dictation to the states is properly noted.

Now it must be acknowledged that all this does not prove that the market model could not be applied to higher education, although it does seem to show that such would be most difficult under present conditions. Further, this analysis intimates that other social functions may be cast aside when a social institution is placed on a market system. Present criticisms of business and industry vis a vis the environment illustrate this caveat. Nevertheless, the temptation does exist to turn higher education completely upside down and shake it, so severe is present disillusionment with the system.

Similarly, under present arrangements governmental regulations regarding higher education severely restrict the operation of a market model; however, perhaps under a fully emancipated free market system all elements of the model could operate as predicted from the theory.

Voucher System Creates a Limited Public Service

A final conclusion has to do with the politics of awarding vouchers only to the needy. Explicitly, would long-range losses in public support for higher education result from such a system?

[46] *Institutional Aid*, p. 3.

[47] Ibid., p. 2.

[48] Community college aid and planning grants are the programs concerned.

The plan for full-cost or very high tuition is a significant departure from the tradition of making public services available to all and then letting the public exercise the options. This is illustrated by such public conveniences and services as highways, parks and playgrounds, and public libraries. On the other hand, parallels can also be drawn to the traditional exclusive use by the poor of certain public welfare programs. Indeed, an income test is usually required to be eligible for these programs. Finally, public elementary and secondary education, the services closest in nature to those of higher education, follow yet another model in that, in essence, all persons up to a certain age are required to accept them; therefore, equality of opportunity is in a sense built into the system (although it is by no means achieved because dropout rates are much higher among the poor).

The difficulty is that one could argue for the application to higher education of any of these models. The values of the author of this paper are such that very low tuition, paid for by a strongly progressive tax system coupled with generous grants to low income youth for cost-of-living and incidental expenses, is preferred. Contracts could be awarded to private colleges for the education of certain students. This position is based largely on a major experience in the California system and the view that the more politically popular public services have been those which have been equally available to all citizens. Consequently, services like fire protection, social security legislation, and educational benefits under the G.I. Bill have received broad public favor, whereas welfare programs, oil depletion allowances, and various other business tax advantages have caused widespread dissatisfaction. Thus, it would seem that continued support of higher education would be more likely, politically, with a single rather than double tax.[49] Further, many of these traditional social values of higher education can be promoted only if institutions have some unrestricted funds at their disposal. Promotion of these values, in addition to those of effiency and equality of opportunity, clearly suggests an eclectic funding plan such as that described above.

In closing, it should be noted that "correct" decisions in social organizations are not matters of good economics or bad. As Abraham Maslow noted, all the social sciences, unlike the physical sciences, are value-laden. Thus, decisions in social organizations are made by selecting a set of values and then choosing a course of action consistent with those values. In the final analysis, whether or not we should have a voucher system depends purely on the values we choose to promote.

---

[49] In other words, a higher progressive tax structure without a second "tax" in the forms of high- or full-cost tuition. Economists prefer to call this second tax a user charge. I doubt that those who pay it care what name it is given.

Notes on the Author

LARRY L. LESLIE holds a joint appointment at The Center for the Study of Higher Education, where he is chairman and associate professor of higher education. Dr. Leslie earned an Ed.D. from the University of California at Berkeley. He has served as a consultant to the Office of Economic Opportunity, the Title III Office of the State of Wyoming, the Utah State Board of Education, and the Committee for Economic Development.

Center for the Study of Higher Education
The Pennsylvania State University

The Center for the Study of Higher Education was established in January 1969 to study higher education as an area of scholarly inquiry and research. Dr. G. Lester Anderson, its director, is aided by a staff of twenty, including five full-time researchers, and a cadre of advanced graduate students and supporting staff.

The Center's studies are designed to be relevant not only to the University and the Commonwealth of Pennsylvania, but also to colleges and universities throughout the nation. The immediate focus of the Center's research falls into the broad areas of governance, graduate and professional education, and occupation programs in two-year colleges.

Research reports, monographs, and position papers prepared by staff members of the Center can be obtained on a limited basis. Inquiries should be addressed to the **Center for the Study of Higher Education, 101 Rackley Building, The Pennsylvania State University, University Park, Pennsylvania, 16802.**

FILMED FROM BEST AVAILABLE COPY

SELECTED PUBLICATIONS AVAILABLE FROM THE CENTER FOR THE STUDY OF HIGHER EDUCATION

Monographs

Human Services Occupations in the Two-Year College: A Handbook, Theodore E. Kiffer and Martha Burns, May 1972.

Pennsylvania Community College Faculty: Attitudes Toward Collective Negotiations, John W. Moore, and *Career Patterns and Educational Issues,* Robert A. Patterson, May 1971.

Institutional Self-Study at The Pennsylvania State University, Kenneth P. Mortimer and David W. Leslie (eds.), December 1971.

Numbered Reports

The Rationale for Various Plans for Funding American Higher Education, Larry L. Leslie, June 1972, Report No. 18.

Collective Bargaining: Implications for Governance, G. Gregory Lozier, and Kenneth P. Mortimer, July 1972, Report No. 17.

Productivity and the Academy: The Current Condition, William Toombs, May 1972, Report No. 16.

Exceptional Graduate Admissions at The Pennsylvania State University, Manuel G. Gunne and Larry L. Leslie, March 1972, Report No. 15.

The Quality of Graduate Studies: Pennsylvania and Selected States, Stephen D. Millman and William Toombs, February 1972, Report No. 14.

Goals and Ambivalance: Faculty Values and The Community College Philosophy, Karen L. Bloom, Angelo C. Gillie, and Larry L. Leslie, November 1972, Report No. 13.

Governance and Emerging Values in Higher Education, Kenneth P. Mortimer, Stanley O. Ikenberry, and G. Lester Anderson, September 1971, Report No. 12.

The Academic Senate at The Pennsylvania State University, Kenneth P. Mortimer and David W. Leslie, August 1971, Report No. 11.

Professional Education: Some Perspectives, 1971, Larry L. Leslie, Kenneth P. Mortimer and G. Lester Anderson, August 1971, Report No. 10.

Centers and Institutes at The Pennsylvania State University: A Case Study, Mary M. Norman, March 1971, Report No. 9.

FILMED FROM BEST AVAILABLE COPY

Numbered Reports, continued

New Careers in Human Services: A Challenge to the Two-Year College (A Preliminary Report), Martha A. Burns, March 1971, Report No. 8.

The Academy and General Education, Stanley O. Ikenberry, December 1970, Report No. 7.

A Profile of Proliferating Institutes: A Study of Selected Characteristics of Institutes and Centers in 51 Land-Grant Universities, Stanley O. Ikenberry, November 1970, Report No. 6.

Roles and Structures for Participation in Higher Education Governance: A Rationale Stanley O. Ikenberry, August 1970, Report No. 5.

Higher Education and the Black Atypical Student, W. Frank Hull, IV, February 1970, Report No. 4.

Colloquy: A Student-Initiated Reform in Higher Education, W. Frank Hull, IV, February 1970, Report No. 3.

The Changing College Curriculum—Issues and Implications, G. Lester Anderson, and *Instructional Systems in Higher Education—Specifications for Individualization,* Stanley O. Ikenberry, January 1970, Report No. 2.

The "Special Admission" Student and the College, W. Frank Hull, IV, November 1969, Report No. 1.

Conference Reports

The Third Annual Pennsylvania Conference on Post-Secondary Occupational Education, Angelo C. Gillie, June 1972.

The Second Annual Pennsylvania Conference on Post-Secondary Occupational Education, Angelo C. Gillie, June 1970.

Post-Secondary Occupational Education: An Overview and Strategies, Angelo C. Gillie, January 1970.

Bibliographies

Selected Bibliography in Higher Education, September 1969. Revised April 1971.

Student Unrest on the American Campus. David Leslie, November 1960.

The Black Student in Higher Education. W. Frank Hull, IV, November 1969.

Selected Bibliography on the Concept of Leadership. Robert Smedley, June 1970.